



DTS 2008/09 and 2009/10 Financial Plan

Action Item

Recommendation: Recommend that the Board approve the DTS 2008/09 and 2009/10 Financial Plan, including:

- Mid-Year Rate Package (FY 2008/09 = \$1,006,742)
- Cannery relocation one-time surcharge on mainframe rates
- Alignment of network rates in FY 2009/10
- Complete alignment of Output Processing Service rates in FY 2009/10
- Implementation of direct transfer for all customers

Introduction

The Department of Technology Services (DTS) has experienced slow but steady growth in the last three years. We have implemented the following rate realignments since consolidation:

- Phase 1 – Mainframe rates were reduced by 10% resulting in an overall reduction to customers of \$16.3 million.
- Phase 2 – Mainframe rates were again reduced by 25% and network rates were restructured. Total annual cost savings to DTS customers of \$26.7 million.
- Phase 3 – Introduced tiered storage and zAAP Processing and realigned Computer Output Microfiche (COM) and Disaster Recovery rates. Overall revenue impact was neutral.
- Phase 4 – Realignment of Customer Owned Equipment Managed Services (COEMS) and Print Service rates, plus the introduction of State Email enhancements. Overall revenue increase is approximately \$1.1 million.

Historically, mainframe services have been the main revenue source for DTS. Recently, mainframe revenues have dropped as a result of a decline in transaction counts due to migration of large applications and the recent Executive Order S-09-08. In addition, recent changes in federal regulations will require each service area to breakeven on an annual basis.



Revenues and expenditures for Fiscal Year (FY) 2007/08 resulted in under collection of \$7.2 million. FY 2008/09 and FY 2009/10 are projected to under collect, \$9.9 million and \$11.0 million respectively.

Mid-Year 2008/09 Rate Package – Phase IV

Rate Package Proposes to Reduce and Restructure Some Rates: Effective January 1, 2009, DTS proposes changes to the following three service rates:

- **COEMS Services:** The proposed change is designed to recover the actual raised floor costs and associated facilities costs.
- **Print Services:** DTS has not adjusted the rates for print services since 1997; however, vendor contract costs have continued to increase. DTS proposes to increase the rates in “steps” to mitigate the impact to customers. DTS proposes to increase print rates 100% on January 1, 2009 and another 100%-150% on July 1, 2009. The two step increase will result in breakeven for this service by the end of FY 2009/10. DTS plans to revisit print rates in FY 2009/10 as we pursue the replacement of our current print vendor.
- **Enhancements to the Statewide Email Service Offering:** Effective January 1, 2009, DTS is proposing two areas of enhancements to the Statewide Email service offering, as follows:
 - E-fax: Allows customers to receive faxed messages in their email inbox. This will be billed as a direct pass-through, plus DTS support costs to customers who choose to use this service.
 - Encryption: Encrypts the content of emails and will be billed as a direct pass-through, plus DTS support costs to customers who choose to use this service.

The cost impact to DTS Customers is \$1,006,742 for FY 2008/09 and \$2,717,357 for FY 2009/10. This cost impact is based on actual customer usage during FY 2007/08, assuming no growth.

Financial Issues

Matching Revenues with Expenses: Mainframe and Storage Services account for the majority of DTS over collections. The top four services which under collect are Network Services, Statewide Email, Output Services (Print and Computer Microfiche), and Server Based Computing.



DTS is targeting to reduce overhead and indirect expense cost expenditures by 10% in FY 2008/09, resulting in an expenditure reduction of \$4 million. In addition, DTS plans to complete the realignment of rates within a 10% threshold in FY 2009/10. DTS will also pursue the reduction or elimination of non-profitable services, such as Output Services, VM Processing, Human Resources Information System (HRIS), Server Based Computing, and Linux (Mainframe).

Cannery and South Annex Relocation and New Administrative Site

In July 2006, a report of the DTS raised floor space and supporting infrastructure revealed that the Cannery Campus has several infrastructure, location and natural disaster problems. Continued occupancy will require millions of dollars in upgrades.

The DTS current plan includes strategies for maximizing available raised floor space usage at the Gold Camp facility and relocating the Cannery Campus raised floor to leased space outside the Sacramento area. In addition, new administrative office space will be obtained.

The estimated one-time relocation costs are:

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| • Cannery Relocation | \$8.6 million |
| • Duplicate Rent for Transition | \$2.2 million |
| • New Administrative Site Relocation | \$5.9 million |
| • Duplicate Administrative Site Rent | <u>\$0.8 million</u> |
| | \$ 17.5 million |

DTS plans to finance one-time charges (\$11.6 million) and include a one-time surcharge on mainframe rates. Once the relocation is complete, DTS will recognize a total ongoing annual savings of \$1.7 million.

Network Rate Strategy: DTS is under going an extensive review of the network rates structure to propose final breakeven for network services in FY 2009/10. DTS plans to simplify the five-tiered rate structure and replace with single connection charge rate or fee.

Output Services Strategy: Output Services consists of Print and Microfiche Processing. DTS is currently working with customers to move off of old media, such as Print and Microfiche, and encourage online viewing and reporting which is not only less expensive but consistent with Green initiatives to reduce consumable resources. The two-part rate increase for Print Services proposed in the FY 2008/09 Rate Package will result in breakeven by the end of FY 2009/10. DTS will propose breakeven rates for Microfiche Services in FY 2009/10 Rate Package.

Managing Cash (DTS Revolving Fund): DTS continues to experience cash management problems. Although the DTS revolving fund averages \$75 million,



approximately three-quarters (\$50 million) of the revolving fund is tied up in accounts receivables.

DTS' ongoing accounts receivable issue impacts our ability to meet monthly obligations, such as payroll and payments to vendors. Although DTS has a voluntary direct transfer program, we have been unable to attract the majority of our customers. We are proposing the implementation of mandatory direct transfer for all DTS customers.